



THE CITY OF SAN DIEGO REPORT TO THE CITY COUNCIL

DATE ISSUED: October 21, 2013 REPORT NO: 13-087

ATTENTION: Council President and City Council

SUBJECT: Update on the Relocation of Public Works and Public Utilities
Staff to 525 B Street, San Diego

REQUESTED ACTION:

This informational item summarizes the steps taken to move the 450 employees from 600 B Street to 525 B Street, the final cost, and impacts to the City's Operating Budget.

STAFF RECOMMENDATION:

Accept the Report

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

In April 2013, Mayor Filner appointed Jason Hughes as the Special Assistant for Real Estate Services to negotiate a proposal to relocate City Staff from 600 B Street. The current 600 B Street lease was scheduled to expire at the end of May 2013 with an option to extend the lease for up to three additional months. Mr. Hughes proceeded to negotiate preliminary lease terms with Hines Corporation, which proposed terms and conditions of leasing office space at 525 B Street. The 525 B street office space was selected due to a reduced monthly rate per square foot and also a more efficient layout for employees due to greater floor plates. The preliminary lease terms included leasing 77,605 square feet of office space for a six-year term. In addition, \$10.00 per leased square foot (\$776,050) in tenant improvements was included in the preliminary lease. The savings over the six-year term of the lease was estimated at \$18 million and was based on a comparison to the existing lease payments at 600 B Street.

It is important to note that the \$18 million in savings did not include possible expenditures related to additional square footage and tenant improvements needed, the design of the office space, relocation of IT equipment, moving cost, and modular furniture. At no time during the preliminary lease negotiations were the City departments impacted by the possible move consulted by the prior Mayor or his senior staff as to their operational needs. In addition, the prior administration provided Mr. Hughes with very limited details on the department needs and he was instructed to negotiate the lowest lease possible that assumed the use of the existing modular furniture. After completing an assessment of the departments' office space needs, additional square footage was added to the 525 B Street lease. Including the Ground floor payment center of 477 square feet, a total of 90,778 square feet of office space has been leased. The \$10.00 per lease square foot remained, increasing the tenant improvement allowance to \$907,780. The landlord provided an additional allowance of \$100,000 for necessary ADA improvements for a total of \$1,007,780 in tenant improvements.

Ultimately, the costs to move from 600 B to 525 B Street is \$3,006,628 million higher than anticipated. However, the City will still experience substantial savings over the six year lease period and also the following benefits:

- City employees will have an overall improvement to the work area environment and enhanced work environment processes. This is due to better designed and standardized work stations for staff.
- Public Utilities incorporated a new customer payment center and improved the layout of its remittance processing center.
- Staff can now utilize a more modernized and sophisticated records management and storage center which has more storage capacity than what was available at 600 B Street.
- City vehicles will now be parked in the adjacent parking garage to 525 B Street which greatly improves staff efficiency and decreases the non-productive time between having to park City vehicles at the Parkade parking lot and walking to 600 B Street

The following sections provide an overview of the scope of the move and the reasons for why the costs were higher than anticipated.

Scope and Schedule of Move

To accommodate the move of the 450 staff, the following significant activities needed to be executed:

- Assessment of all office needs of each department that fully addresses their unique business operations
- Detailed space planning and design of office spaces in accordance with Administrative Regulation 56
- Construction of office spaces
- Installation of IT equipment and wiring
- Physical move of staff, furniture, supplies and partitions: Due to the volume of the IT equipment, furniture, CIP project files, other project records retention and office supplies, the move was required to be executed in 5 phases over an entire month. The specific moving phases were:
 - Phase 1: Move unwanted furniture and supplies to the old downtown library no longer needed by each respective Department.
 - Phase 2: Move the Department's records retention, records management, CIP project files, and project outreach supplies to the new Records Management Center located at 525 B Street's basement.
 - Phase 3: Prior to the final building occupancy being issued, moving boxes, storage units, file cabinets and some non-essential supplies were moved into new modular office spaces with City Fire Marshall approval beginning September 13, 2013 through September 18, 2013.
 - Phase 4: Remaining moving boxes, IT equipment, furniture and supplies moved into 525 B Street once final building occupancy was issued beginning on September 19, 2013.

- Phase 5: Removal of all remaining furniture, modular office walls and modular furniture no longer needed by either Department from 600 B Street.

The table below reflects the actual schedule of all significant activities required to move the 450 staff to 525 B Street.

Activity	Month									
	May		June		July		August		September	
Assessment										
Space Planning/Design										
Install IT Equipment and Wiring										
Construction										
Moving										
Phase 1										
Phase 2										
Phase 3										
Phase 4										
Phase 5										

Annual Lease Payments & Tenant Improvement Allowance

The initial base monthly rental rate for office space was \$1.25 per Rentable Square Foot (RSF), with \$.06 RSF increases annually. In addition, the monthly rental rate for basement storage is \$0.60 per RSF for the first year of the lease. The rate per square foot will increase beginning in year three of the lease by \$0.05 each year for the remaining term of the agreement. The lease provided a tenant improvement allowance of \$10.00 per RSF or \$907,780. Hines provided an additional allowance of \$100,000 for necessary ADA improvements for a total of \$1,007,780 in tenant improvements. If necessary, the lease provided for an additional \$15.00 per RSF in tenant improvement funding for a maximum total of \$25.00 per RSF. If the City elected to increase the tenant improvement allowance from the \$10.00 then the monthly base rent (\$1.25) would increase by \$.017 for each dollar of increased tenant improvement allowance.

The actual tenant improvement costs were \$1,578,317 or \$570,537 greater than the tenant improvement allowance of \$1,007,780. The increased tenant improvement costs resulted in an increase of \$6.28 per RSF for a total of \$16.28 per RSF. In accordance with the lease, the revised initial monthly rental rate will be increased to \$1.36 per RSF. The reasons for the increased tenant improvements include:

- Essentially two (2) empty floors were reconstructed while the other two and two thirds floors needed significant modification while leveraging as much of the existing infrastructure as possible.
- Improvements included the construction of office spaces, conference rooms, lunch/break rooms, receptionist area shared by both departments; a joint training room shared by both departments, ADA upgrades to existing restroom facilities, main and indirect network

server room construction, painting, HVAC and electrical improvements, and installation of new carpeting.

During the planning and assessment process staff sought the professional advice of the space planner, M. Arthur Gensler Jr. and Associates, to ensure reasonable cost for tenant improvements. It should be noted that City staff were advised that typical tenant improvements cost could range between \$30 to \$50 per RSF for other clients compared to final tenant improvement costs of \$16.28 per RSF.

The following table compares the adjusted lease savings to the original 600 B Street lease amount and also to a renegotiated lease rate provided by the landlords of 600 B Street.

Year	600B Street ⁽¹⁾ (Original Lease)	600B Street (Renegotiated Lease)	525B Street ⁽²⁾ (\$10.00TIA Original)	525B Street (\$16.28TIA Final)	Savings (600Original vs 525F inal)	Savings (600Renegotiated vs 525F inal)
Year 1	\$4,370,828	\$2,577,000	\$1,399,391	\$1,519,218	(\$2,851,610)	(\$1,057,782)
Year 2	\$4,370,828	\$2,674,440	\$1,464,751	\$1,584,578	(\$2,786,250)	(\$1,089,862)
Year 3	\$4,370,828	\$2,771,881	\$1,533,255	\$1,653,081	(\$2,717,747)	(\$1,118,799)
Year 4	\$4,370,828	\$2,869,320	\$1,601,758	\$1,721,585	(\$2,649,243)	(\$1,147,735)
Year 5	\$4,370,828	\$2,966,760	\$1,670,262	\$1,790,089	(\$2,580,739)	(\$1,176,672)
Year 6	\$4,370,828	\$3,064,200	\$1,738,765	\$1,858,592	(\$2,512,236)	(\$1,205,608)
Total:	\$26,224,968	\$16,923,601	\$9,408,181	\$10,127,143	(\$16,097,825)	(\$6,796,458)
Public Works (General Fund)	\$13,899,233	\$8,969,509	\$5,336,706	\$5,744,530	(\$8,154,703)	(\$3,224,978)
Public Utilities (Enterprise Fund)	\$12,325,735	\$7,954,093	\$4,071,475	\$4,382,613	(\$7,943,122)	(\$3,571,480)
Total:	\$26,224,968	\$16,923,601	\$9,408,181	\$10,127,143	(\$16,097,825)	(\$6,796,458)

(1) For 600 B Street, assumes payment split of 53% for Public Works and 47% for Public Utilities

(2) For 525 B Street, assumes payment split of 57% for Public Works and 43% for Public Utilities

Additional Expenses Not Considered In The Preliminary Lease Terms

After the completion of the assessments of office needs and space planning efforts in June of 2013 additional and necessary move expenses were identified. For example, it was identified that a majority of staff at 600 B Street were either not in cubical furniture or their old cubical furniture could not be recycled. Therefore, new cubical furniture had to be purchased to facilitate the move. In addition, to accommodate the 450 employees into a lesser square footage, the modular office cubicles and office designs incorporated the latest 2012 City Administrative Regulation (AR) 56 standards.

Extensive IT improvements to the network and communications infrastructure were also required at 525 B Street. This included the design and construction of the network cabling system to operate all computer, printer and application software; the transfer of all phone lines to meet the City's new VoIP system requirements; relocation and set-up of the Aspect Automated call Distribution System (ACD) critical to five (5) key City customer service call center operations in three (3) departments (Public Utilities, City Treasurer and Environmental Services); relocation and set-up of the Public Utilities Department Remittance Processing Systems necessary to ensure uninterrupted and timely processing of water and sewer bills (average of \$2.5 million per day); disconnect, reconnect, create print queues and provide on-site support for approximately 575 total devices being moved to 525 B Street; decommission of network equipment and

communication at 600 B Street. It should be noted that at some point in the future many of these IT improvements would have been required to ensure business continuation.

As discussed above, the physical moving of staff, furniture and supplies was structured to occur over several planned moves beginning from late August 2013 through the final week of September 2013.

The final additional expenses related to the move are:

Category	Public Works (General Fund)	Public Utilities (Enterprise Fund)	Total
Space Planning/Design (Gensler)	\$37,585	\$37,585	\$75,170
Furniture (GMBI)	\$609,216	\$433,180	\$1,042,396
IT (Xerox)	\$242,436	\$217,012	\$459,448
IT (Atos)	\$27,314	\$20,606	\$47,920
Moving (MEK)	\$319,523	\$311,402	\$630,925
Sharp Copiers	\$2,884	\$2,674	\$5,558
Stevens Enterprises (OCE plotters)	\$10,500	\$15,750	\$26,250
Total:	\$1,249,458	\$1,038,208	\$2,287,666

Funding for the \$2,287,666 million in additional expenses was not anticipated in the FY 2014 Adopted Budget and have been charged directly to the Public Works Department (\$1,249,458 million) and the Public Utilities Department (\$1,038,208 million). As a result, the Public Works Department is projected to be over budget and will require a mid-year or year-end adjustment to ensure that the department is not at a negative balance at year-end. The Public Utilities Department will absorb the \$1.04 million in additional expenditures in their operating budget.

FISCAL CONSIDERATIONS:

The adjusted net savings, after revising the lease savings based on the increased square footage and adding in the additional expenses are:

Category	600B Street ⁽¹⁾ (Original Lease)	600B Street (Renegotiated Lease)	525B Street ⁽²⁾ (\$10.00TIA Original)	525B Street (\$16.28TIA Final)	Cost/(Savings) (600Original vs 525Final)	Cost/(Savings) (600Renegotiated vs 525Final)
Lease Payments	\$26,224,968	\$16,923,601	\$9,408,181	\$10,127,143	(\$16,097,825)	(\$6,796,458)
Additional Cost	\$0	\$0	\$2,287,666	\$2,287,666	\$2,287,666	\$2,287,666
Total	\$26,224,968	\$16,923,601	\$11,695,847	\$12,414,809	(\$13,810,159)	(\$4,508,792)
Public Works (General Fund)	\$13,899,233	\$8,969,509	\$6,586,164	\$6,993,989	(\$6,905,245)	(\$1,975,520)
Public Utilities (Enterprise Fund)	\$12,325,735	\$7,954,093	\$5,109,683	\$5,420,820	(\$6,904,915)	(\$2,533,272)
Total:	\$26,224,968	\$16,923,601	\$11,695,847	\$12,414,809	(\$13,810,159)	(\$4,508,792)

(1) For 600 B Street, assumes payment split of 53% for Public Works and 47% for Public Utilities

(2) For 525 B Street, assumes payment split of 57% for Public Works and 43% for Public Utilities

As reflected in the table above, even with the additional expenses associated with the move, the City will experience substantial savings over the term of the lease. In addition, the City is currently in negotiations with the owners of 1010 Second Avenue to reduce the monthly lease rate which could result in significant savings in FY 2014 and beyond. These savings could be used to offset the additional expenses associated with the move to 525 B Street.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable)

N/A, informational item

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

Authorization of the lease agreement between the City, as tenant, and HINES 525 B STREET LP, a Delaware limited partnership, as landlord, for 90,778 in RSF office space at 525 B Street, San Diego, CA 92101 was approved through Council Action on June 17, 2013, Docket Item S401, O-20273.

Authorization of an Amendment to the agreement between M. Arthur Gensler Jr. and Associates, Inc and the City San Diego to provide space planning, design, and construction support services for \$75,170 was approved through Council Action on June 17, 2013, Docket Item S400, and R-308273.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS

City of San Diego, as tenant, and HINES 525 B STREET LP, a Delaware limited partnership, as landlord



James Nagelvoort, PE
Public Works Assistant Director and City
Engineer



Jeff Sturak
Financial Management Director



Scott Chadwick
Assistant Chief Operating Officer